

Message Text

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PAGE 01 HONG K 03473 290533Z

12

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PA-04 USIA-15

PRS-01 DRC-01 /109 W

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R 280657Z MAR 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 134

INFO AMEMBASSY JAKARTA

C O N F I D E N T I A L HONG KONG 3473

DEPARTMENT PASS TREASURY FOR LARSEN

E.O. 11652: GDS

TAGS: EFIN, ID

SUBJ: INDONESIA PURCHASE OF IBRD BONDS AND PARTICIPATION IN IMV
SUPPLEMENTARY FINANCE PROPOSAL

1. AS RESULT TREASURY REPRESENTATIVE DISCUSSIONS DURING VISIT
MARCH 18-22 AND OTHER MISSION CONTACTS, NOW IN POSITION TO OUTLINE
INDONESIAN ATTITUDES TOWARD PURCHASE OF IBRD BONDS AND PARTICI-
PATION IN IMF SUPPLEMENTARY FINANCE. MAIN POINTS GOI VIEWS EITHER
EXPLICIT OR INFERRED ARE:

A) INCREASE IN OIL REVENUES WILL NOT INCREASE INDONESIA'S
PER CAPITA INCOME DRAMATICALLY BECAUSE IT IS POOREST
AND LARGEST OF OIL PRODUCERS;

B) AS MAJOR AID RECIPIENT, IT IS PSYCHOLOGICAL WRENCH TO
THINK OF ITSELF AS A DONOR;

C) THERE CONSIDERABLE UNCERTAINTY AS TO HOW LONG WILL LAST
EXPECTED SURPLUS IN FACE OF RISING IMPORT PRICES AND/OR
DECLINE IN OIL PRICES; AND

D) IT IS KEENLY AWARE OF AND ANXIOUS TO HEAD OFF, TO
EXTENT POSSIBLE, DONOR PLANS TO REDUCE ASSISTANCE, PARTICULARLY
OF PROGRAM TYPE.

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PAGE 02 HONG K 03473 290533Z

2. GOI IS TRYING TO DOWNPLAY EXPECTED RESERVE INCREASE IN IFY BEGINNING APRIL 1. IT ESTIMATES SURPLUS OF \$850 MILLION COMPARED TO IMF ESTIMATE OF \$1.1 BILLION AND STILL HIGHER FIGURES BY MISSION, NOW BEING REVIEWED.

3. AS A CONSEQUENCE OF ITS VIEWS, IT IS TENTATIVELY TAKING POSITION THAT IT WILL NOT PURCHASE IBRD BONDS, OSTENSIBLY BECAUSE OF THEIR RELATIVELY LONG MATURITIES, BUT WILL, IN PRINCIPLE, PARTICIPATE IN IMF SUPPLEMENTARY FINANCE SCHEME. IT BELIEVES, HOWEVER, THAT FUND HAS ASSIGNED INDONESIA TOO HIGH A QUOTA (WHICH WE BELIEVE TO BE \$140 MILLION) AND IS THINKING ABOUT HALF AS MUCH ACCORDING TO ONE SOURCE OR \$97 MILLION ACCORDING TO ANOTHER. IN ANY EVENT, REPAYMENT OF OUTSTANDING FUND DRAWINGS INCLUDING THOSE IN GOLD TRANCHE WILL BE COMPLETED IN FEW MONTHS.

4. COMMENT: MCNAMARA RAISED QUESTION OF BONDS IN RECENT VISIT BUT APPARENTLY NOT IN VERY STRONG TERMS. IMF CONSULTATION TEAM WHICH LEFT LAST WEEK HAS DISCUSSED ITS PROPOSAL. INDONESIAN POSITION IS ON SURFACE ILLOGICAL BECAUSE IBRD BONDS WOULD CARRY HIGHER INTEREST RATE THAN DEPOSITS IN IMF. BASIC ISSUE MAY BE THAT PURCHASE OF BONDS WOULD SYMBOLIZE FUNDAMENTAL SHIFT IN INDONESIA'S POSITION AS AID RECIPIENT WHEREAS IT WOULD PREFER TO REGARD OIL PRICE INCREASE AS WINDFALL WHOSE EFFECTS MAY NOT BE PERMANENT. GOI POSITION SEEMS TO BE CRYSTALLIZING SO THAT ANY REPRESENTATIONS ON OUR PART SHOULD BE DONE QUICKLY.

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